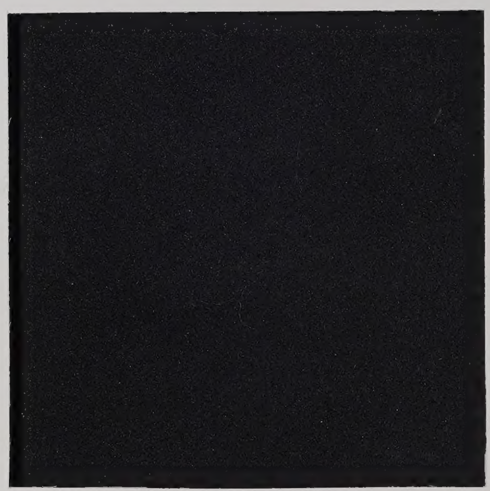
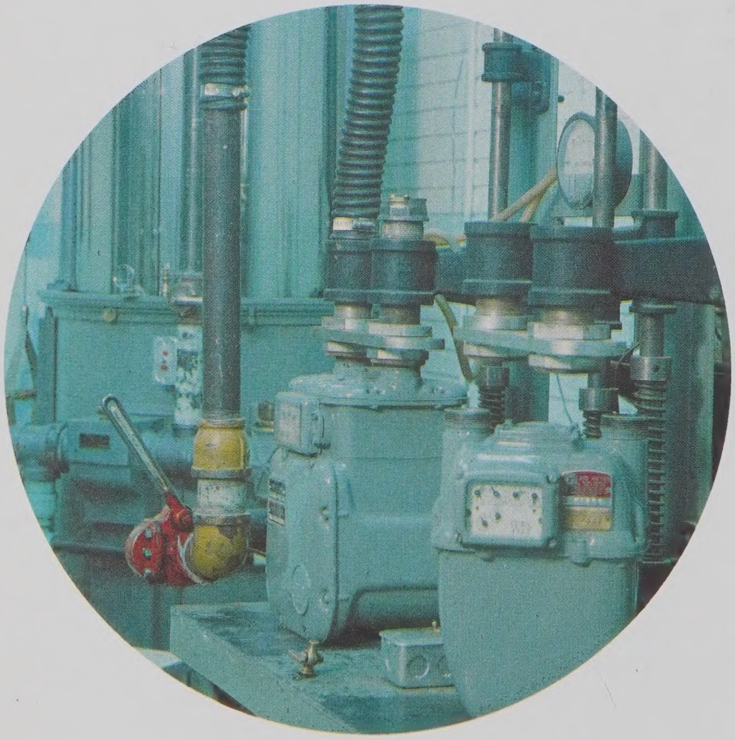
# Inter-City Gas Limited Annual Report 1975



# Highlights

| | 1975 | 1974 | Percent Increase |
|---|---|---|---|
| For the Year | | | |
| Revenue | $52,630,354 | $37,338,504 | 41% |
| Net Income | 2,622,079 | 2,121,467 | 24% |
| Per Common Share | .56 | .45 | 24% |
| Dividend Rate | | | |
| Per Common Share | .24 | .20 | 20% |
| At Year End | | | |
| Long-Term Debt | 22,828,934 | 21,590,552 | 6% |
| Shareholders' Equity | 18,784,317 | 17,729,134 | 6% |
| Total Assets | $65,348,609 | $62,385,127 | 5% |



## Officers

Robert G. Graham, *President*
Wayne R. Harding, C.A., *Executive Vice-President*
C. Roy Beenham, *Senior Vice-President*
E. P. Rimmer, P. Eng., *Vice-President*
G. H. Lucas, *Vice-President*
R. J. Dahnke, P. Eng., *Vice-President*
Barré W. Hall, *Secretary*
Robert W. Dunbar, C. A., *Controller*

## Directors

C. Roy Beenham, *Winnipeg, Manitoba*
G. R. Chater, *Toronto, Ontario*
H. E. Dynes, *Toronto, Ontario*
Robert G. Graham, *Winnipeg, Manitoba*
Wayne R. Harding, *Winnipeg, Manitoba*
James W. McCutcheon, Q. C., *Toronto, Ontario*
Gordon P. Osler, *Toronto, Ontario*
E. P. Rimmer, *Winnipeg, Manitoba*
Alan Sweatman, Q. C., *Winnipeg, Manitoba*

## Solicitors

Thompson, Dorfman, Sweatman

## Auditors

Coopers & Lybrand

## Transfer Agent and Registrar

Canada Permanent Trust Company
*Winnipeg, Toronto, Calgary and Vancouver*

## Head Office

*1500 Richardson Building*
*One Lombard Place, Winnipeg, Manitoba*

## TO THE SHAREHOLDERS

We are pleased to report that revenue and net income continue to improve over last year's results. Operating revenue for the first 6 months of the current year is 32% higher than the same period last year, and net income on common shares shows a 20% increase.

Working capital was improved with the proceeds of the $4.5 million term loan negotiated during 1974 in connection with the development of our Many Islands gas field.

Recently Inter-City made a proposal to purchase the shares of Western Supplies Ltd. for an aggregate purchase price of $10.8 million with financing pre-arranged on a satisfactory long term basis with two lending institutions. Our offer came after protracted negotiations with the major shareholders of Western; however, they ultimately decided not to accept.

We believe that the combination of our equipment supply division and Western Supplies Ltd. would have offered greatly improved potential for both shareholders and employees; however, in view of the alternative investment opportunities available to expand our equipment division and to increase our resource exploration activity, we could not economically justify increasing our offer for Western.

R. G. GRAHAM
PRESIDENT



TRANSMISSION AND
DISTRIBUTION OF NATURAL GAS

MANUFACTURING AND
DISTRIBUTION OF HEATING EQUIPMENT

EXPLORATION AND DEVELOPMENT
OF OIL AND GAS RESOURCES

Inter-City Gas
LIMITED

✓ Canroy

# Inter-City Gas

SEMI ANNUAL REPORT
FOR THE SIX MONTHS ENDED JUNE 30, 1975

file

## INTER-CITY GAS LIMITED
## AND SUBSIDIARY COMPANIES

### Consolidated Statement of Income
For the Six Months Ended June 30, 1975

| | 1975 $ | 1974 $ |
|---|---|---|
| OPERATING REVENUE | | |
| Sale of Natural Gas | | |
| Utility Division | 17,208,610 | 12,144,897 |
| Exploration Division | 1,249,994 | 180,918 |
| Sale of Manufactured Goods | 5,333,042 | 5,690,490 |
| | 23,791,646 | 18,016,305 |
| OPERATING EXPENSES | | |
| Natural Gas Purchased | 11,791,837 | 7,568,079 |
| Cost of Manufactured Goods | 4,246,866 | 4,466,454 |
| Operation and Maintenance | 3,404,428 | 2,828,363 |
| Depreciation and Depletion | 792,726 | 415,377 |
| Other Income | (156,738) | (380,918) |
| | 20,079,119 | 14,897,355 |
| OPERATING PROFIT | 3,712,527 | 3,118,950 |
| FINANCIAL EXPENSES | | |
| Interest on Long-Term Debt | 1,041,733 | 919,543 |
| Other Interest | 468,770 | 500,932 |
| Amortization of Financing Expense | 24,357 | 31,802 |
| Interest Capitalized | (265,885) | (230,594) |
| Amortization of Goodwill | 26,569 | – |
| | 1,295,544 | 1,221,683 |
| | 2,416,983 | 1,897,267 |
| MINORITY INTEREST | – | 11,326 |
| | 2,416,983 | 1,885,941 |
| PROVISION FOR TAXES | 1,040,000 | 826,000 |
| CONSOLIDATED NET INCOME FOR THE SIX MONTHS | 1,376,983 | 1,059,941 |
| NET INCOME PER COMMON SHARE | .30c | .25c |

## INTER-CITY GAS LIMITED
## AND SUBSIDIARY COMPANIES

### Consolidated Statement of Changes in Financial Position
For the Six Months Ended June 30, 1975

| | 1975 $ | 1974 $ |
|---|---|---|
| SOURCE OF FUNDS | | |
| Consolidated net income for the six months | 1,376,983 | 1,059,941 |
| Items not affecting working capital | | |
| – depreciation and depletion | 792,726 | 415,377 |
| – amortization | 75,031 | 62,313 |
| – minority interest | – | 11,326 |
| – deferred income taxes | 692,600 | 535,560 |
| Provided from operations | 2,937,340 | 2,084,517 |
| Proceeds from term loan | 4,500,000 | – |
| Proceeds from 9½% First Mortgage Bonds | – | 2,948,000 |
| Proceeds from issue of common stock | – | 8,570 |
| Proceeds from issue of 8¼% Series B First Preference Shares | – | 5,300,000 |
| Decrease in investments | 31,182 | – |
| Customers' contributions in aid of construction | – | 5,620 |
| | 7,468,522 | 10,346,707 |
| USE OF FUNDS | | |
| Purchase of fixed assets - net | 914,795 | 411,128 |
| Investment in gas and oil properties - net | 493,675 | 1,167,603 |
| Increase in investments | – | 172,666 |
| Redemption of long-term debt | 2,139,260 | 1,558,479 |
| Redemption of preference shares | 23,600 | 1,212,360 |
| Purchase of shares in subsidiary company | 255,770 | 850 |
| Financing expenses and other deferred charges | 111,488 | 46,006 |
| Natural gas market development program | 9,210 | 28,213 |
| Dividends paid to shareholders | 770,602 | 516,725 |
| Refund of customers' contributions in aid of construction | 871 | – |
| | 4,719,271 | 5,114,030 |
| INCREASE IN WORKING CAPITAL | 2,749,251 | 5,232,677 |
| WORKING CAPITAL DEFICIENCY - BEGINNING OF PERIOD | 4,620,683 | 1,014,666 |
| WORKING CAPITAL (DEFICIENCY) - END OF PERIOD | (1,871,432) | 4,218,011 |

# Report to the Shareholders

I am pleased to report that your Company enjoyed another successful year resulting in net income increasing by 24% to 56¢ per common share. Annual common share dividends were increased 20% to 24¢ per share. Total revenues increased from $37,339,000 to $52,630,000.

Most of our profit increase was realized by our exploration division as some of our expanding gas reserves in Alberta were brought into production while the utility and pipeline division continued to show consistent earnings growth. The heating equipment division earned less in 1975 than in 1974; however, we believe this year will see an improvement in the housing market on which this division depends.

R. G. GRAHAM
*President*

## GAS UTILITIES AND PIPELINES

Natural gas is distributed through utility systems in 67 communities in Manitoba, Minnesota and Ontario. Revenue from these gas sales increased by $11,660,000 last year to $34,032,000. The price of natural gas purchased from our transmission suppliers increased by $10,308,000 and these increases were passed on to our customers with the approval of the appropriate regulatory authorities. Notwithstanding that most of our increased revenue was due to passed-on increases in our costs, we were successful in increasing our gross profit margin by an additional $1,351,000, which represents a 17% improvement over 1974. The primary reason for this increase is the result of our marketing program to up-grade the gas we sell to higher priority residential customers who purchase their gas under higher rate schedules than the lower priority industrial users. This marketing program, which commenced in 1974, not only provides the Company with increased operating margins, but also presents the opportunity for many of our customers to purchase natural gas on a more secure long-term basis.

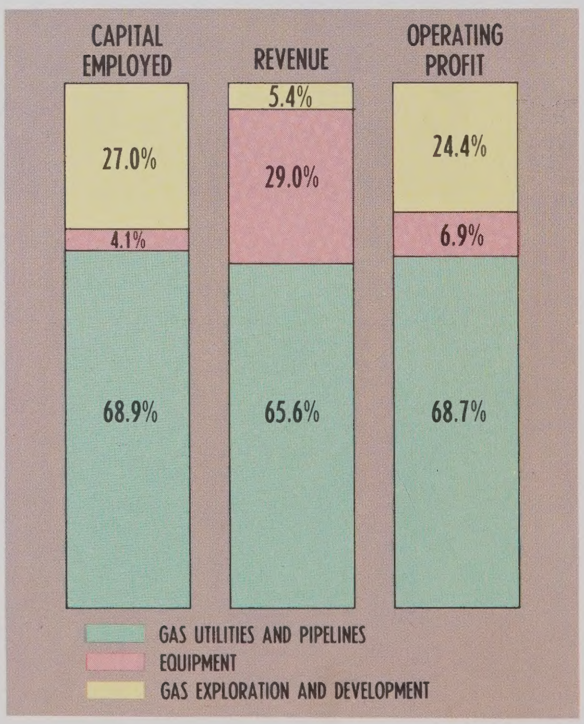
In 1975 we continued to expand our natural gas distribution facilities as available gas supply

permitted and added approximately 1,300 customers to our lines. The expansion of the natural gas distribution system was primarily with polyethylene pipe, which is considerably less expensive and easier to install than steel pipe.

The weather during 1975 was slightly warmer in Minnesota than normal; however, it was slightly colder than normal in Ontario and Manitoba. On an over-all basis, operating profit was approximately $40,000 greater than it would have been had normal weather prevailed in all areas.

In terms of volumes of gas, we sold 7% less natural gas in 1975 than in 1974. The primary reasons for this reduction in demand were strikes in the Fort Frances, Ontario and International Falls, Minnesota plants of our largest customer. In addition, several of our customers in the Minnesota operating area which produce siding, insulation, ceiling tile and related building products, felt the effects of the slow down in the housing market and reduced their demands for energy accordingly.

**1975 DIVISIONAL CONTRIBUTIONS**




As mentioned earlier, the price of natural gas purchased from our transmission suppliers has increased substantially in the past year. The increases have made it necessary for the Company to approach regulatory authorities for permission to pass on those increased costs. In 1975 we had two such rate cases in Manitoba and one in Ontario. In addition, we presented an application in a rate hearing to the Manitoba regulatory authority for an increase in our rates to reflect an increase in the Company's return on its investment. We expect a decision in our Manitoba rate case in the near future. A similar hearing was held in January 1976 for a rate increase to achieve an improved return on our investment in the Ontario operating area. The Minnesota Public Service Commission assumed jurisdiction over natural gas utilities operating in Minnesota as of January 1, 1975. Our Minnesota rates include an automatic purchase gas adjustment clause, and as a result our gas cost increases have been automatically passed on to our customers.

## EQUIPMENT

Revenue from the sales of manufactured heating equipment and manufactured products that we distribute increased by 7% over 1974. In terms of unit sales, we sold approximately 3% fewer units in 1975 than in 1974. Our share of the national Canadian market was approximately 23% of the gas units sold, 10% of all oil furnaces sold and 30% of all electric furnaces sold.

Notwithstanding a relatively good marketing performance, our operating profit dropped from $1,412,000 in 1974 to $930,000 in 1975. However, we believe that the circumstances which led to this profit reduction were temporary.

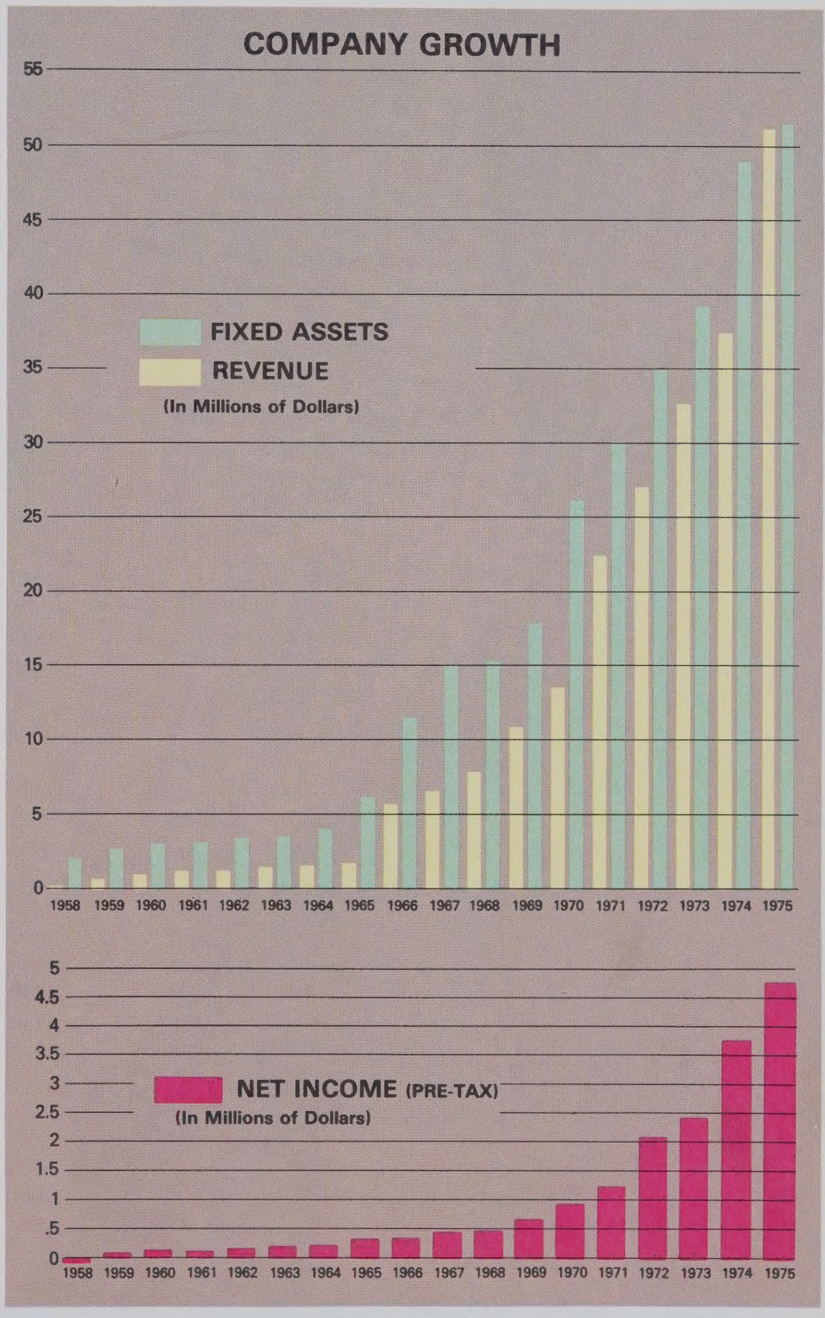
In the fall of 1974, your management decided to continue production at full levels in the face of an apparent drop in the demand for heating products. This decision was reached to take advantage of the availability of materials and labour at the lower costs prevailing in 1974. This policy resulted in our carrying higher than normal inventories into 1975. Unfortunately, the national market for heating equipment did not improve in 1975 over 1974, so we were obliged to curtail operations in both of our plants for approximately two months to reduce inventories to normal levels.

These shut downs with continued fixed costs and the inefficiency of subsequent start-up resulted in increased unit production costs and, therefore, reduced gross margins.

We are optimistic that substantial improvements in operating profits will be realized in 1976 because of indications of higher levels of housing starts, reduction in inventories to appropriate levels, production scheduling improvements and introduction of new product lines.

## GAS EXPLORATION AND DEVELOPMENT

During 1975, gross revenues from natural gas and oil production increased to $2,880,000 and contributed substantially to consolidated net income.




Amigo
Hotchkiss
Springburn
Teepee Creek
Tweedie
Fox Creek West
Baseline Lake
Nose Hill Creek
Rosevear
Edmonton
Sterco
Chedderville
Bearberry
Twining
Rowley
Sullivan Lake
Garden Plains
Sounding Creek
Calgary
Hilda
Many Islands
Medicine Hat
Medicine Hat South
Production and Development
Exploration

Current proven and probable reserves estimated at 160 BCF are being produced at a rate of approximately 25,000 Mcf per day; however, development drilling during 1976 is planned to substantially increase the overall rate of production.

The increasing significance of this division as a primary contributor to growth is further evidenced in the total investment in gas properties of $16,589,000 at December 31, 1975. Included in this investment are 249 natural gas wells in which your Company has an interest together with gathering and compression facilities in our major producing fields at Many Islands Lake, Medicine Hat South and Garden Plains. Many Islands Lake and Medicine Hat South are currently producing at 20,000 Mcf per day. Our most recently developed gas field, Garden Plains, is a single well gas pool currently producing at a rate of 5,000 Mcf per day and is one of the fields held free hold, and therefore subject to a nominal rate of crown royalty.

At December 31, 1975, Inter-City and partners had participated in the drilling of 11 wells with Mobil Oil Company of Canada pursuant to a joint exploration program concentrated in the foothills and deep basin areas of Alberta. Of these 11 wells, 8 are completed and shut-in as gas wells capable of production, as trunk line facilities are extended into these areas.

Included in the 1975 development program will be the Hilda gas field in which Inter-City has taken a 50% partner, Natomas of Canada Ltd. The Company has also entered into a joint exploration program with Natomas under terms whereby Natomas will provide the major portion of the capital. Plans have also been formulated to develop the Tweedie gas field for production in early 1977.

## FINANCING

During 1975 the Company expended a net amount of $4,484,000 in property, plant and equipment, excluding the value of drilling performed for the account of Inter-City in accordance with the terms of a farmout agreement relating to the sale of an interest in the Hilda gas field.

A production loan assumed in order to develop the Garden Plains area is included in the financial statements as a current load due to the anticipated short duration of the credit.

The long-term loan of $4,500,000 set out in the Statement of Changes in Financial Position was negotiated during 1974 in connection with initial development of the Many Islands gas field and was drawn down early in 1975 to replenish working capital.

Additional cash was generated for capital expenditure as a result of reducing equipment merchandise inventories. This reduction, together with cash generated by operations, was sufficient to enable the Company to finance normal expansion and increase investments in resource properties.

## MANAGEMENT CHANGES

We wish to acknowledge and thank retiring Directors H.C. Rynard and G.R. Sharwood for their past contributions, and welcome H.E. Dynes, G.R. Chater and C.R. Beenham to the Board of Directors.

During the year R.J. Dahnke, P. Eng. was promoted to the office of Vice-President and R.W. Dunbar, C.A., was appointed Controller.

On behalf of the Board of Directors

# 10 Year Review

| | 1975 | 1974 | 1973 |
|---|---|---|---|
| Fixed Assets | | | |
| Utility & Pipelines | $35,116,321 | $33,990,642 | $32,273,824 |
| Manufacturing | 1,126,649 | 998,331 | 935,144 |
| Oil & Gas Properties | 16,588,735 | 13,906,324 | 6,079,214 |
| Total | 52,831,705 | 48,895,297 | 39,288,182 |
| MCF Sales | 27,733,547 | 30,019,200 | 27,578,684 |
| Utility Customers at Year-end | 28,699 | 27,376 | 25,451 |
| Operating Revenue | | | |
| Sale of Natural Gas | 36,911,658 | 22,548,331 | 18,323,972 |
| Sale of Manufactured Goods | 15,265,991 | 14,292,236 | 14,018,432 |
| Other Income | 452,705 | 497,937 | 346,796 |
| Total | 52,630,354 | 37,338,504 | 32,689,200 |
| Operating Expenses | | | |
| Natural Gas Purchased | 24,615,009 | 14,306,956 | 11,466,800 |
| Cost of Manufactured Goods Sold | 11,987,850 | 10,693,723 | 11,118,241 |
| Operations & Maintenance | 5,780,962 | 4,468,477 | 3,886,654 |
| Municipal Taxes | 1,160,556 | 915,650 | 825,962 |
| Depreciation and Depletion | 1,648,082 | 918,825 | 796,898 |
| Total | 45,192,459 | 31,303,631 | 28,094,555 |
| Operating Profit | 7,437,895 | 6,034,873 | 4,594,645 |
| Interest and Other Deductions | | | |
| Interest on funded debt | 2,284,208 | 2,176,171 | 1,725,004 |
| Other Interest | 919,570 | 839,154 | 607,511 |
| Amortization of Financing Expenses | 85,282 | 53,495 | 58,847 |
| Interest charged to Construction | (647,212) | (819,793) | (254,880) |
| | 2,641,848 | 2,249,027 | 2,136,482 |
| | 4,796,047 | 3,785,846 | 2,458,163 |
| Provision for Income Taxes | 2,173,968 | 1,658,523 | 1,003,217 |
| | 2,622,079 | 2,127,323 | 1,454,946 |
| Minority Interest | – | 5,856 | 2,720 |
| Consolidated Net Income for the Year | 2,622,079* | 2,121,467* | 1,452,226 |
| Dividends Paid | | | |
| Preferred Shares | 713,028 | 536,790 | 352,488 |
| Common Shares | 824,656 | 683,179 | 378,463 |
| Earnings per Common Share | $.56* | $.45* | $.37 |

*after providing for deferred income taxes.

| 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 |
|---|---|---|---|---|---|---|
| $30,267,090 | $28,934,244 | $25,606,768 | $17,368,581 | $15,296,379 | $15,124,876 | $11,375,363 |
| 876,524 | 555,304 | 496,399 | 471,313 | — | — | — |
| 4,082,497 | 623,352 | — | — | — | — | — |
| 35,226,111 | 30,112,900 | 26,103,167 | 17,839,894 | 15,296,379 | 15,124,876 | 11,375,363 |
| 29,679,614 | 25,903,669 | 16,387,177 | 12,868,651 | 13,298,553 | 10,665,242 | 9,703,460 |
| 23,986 | 22,644 | 20,629 | 19,341 | 18,126 | 17,297 | 12,866 |
| 17,880,232 | 15,379,987 | 10,323,562 | 8,134,631 | 7,547,235 | 6,459,562 | 5,539,203 |
| 9,132,447 | 6,762,515 | 2,948,818 | 2,499,923 | — | — | — |
| 183,416 | 116,792 | 130,815 | 94,003 | 159,348 | 94,909 | 149,402 |
| 27,196,095 | 22,259,294 | 13,403,195 | 10,728,557 | 7,706,583 | 6,554,471 | 5,688,605 |
| 11,409,628 | 10,234,118 | 6,684,504 | 5,104,157 | 4,903,122 | 4,010,281 | 3,593,767 |
| 7,488,332 | 5,707,431 | 2,541,428 | 2,013,251 | — | — | — |
| 3,098,489 | 2,377,718 | 1,474,654 | 1,320,482 | 848,043 | 812,035 | 706,496 |
| 756,117 | 628,289 | 508,993 | 492,359 | 453,296 | 375,799 | 302,591 |
| 667,992 | 568,364 | 410,490 | 371,372 | 329,770 | 292,390 | 290,370 |
| 23,501,558 | 19,515,920 | 11,620,069 | 9,301,621 | 6,534,231 | 5,490,505 | 4,893,224 |
| 3,694,537 | 2,743,374 | 1,783,126 | 1,426,936 | 1,172,352 | 1,063,966 | 795,381 |
| 1,023,372 | 1,173,872 | 609,827 | 434,682 | 368,582 | 360,561 | 283,113 |
| 635,181 | 340,977 | 213,543 | 294,671 | 303,101 | 228,755 | 148,201 |
| 55,427 | 27,814 | 28,444 | 23,136 | 31,493 | 33,480 | 28,682 |
| (120,208) | (41,567) | (9,360) | (13,538) | (17,182) | (19,145) | (16,166) |
| 1,593,772 | 1,501,096 | 842,454 | 738,951 | 685,994 | 603,651 | 443,830 |
| 2,100,765 | 1,242,278 | 940,672 | 687,985 | 486,358 | 460,315 | 351,551 |
| 547,125 | 254,438 | 264,290 | 98,841 | 10,986 | 10,264 | 7,700 |
| 1,553,640 | 987,840 | 676,382 | 589,144 | 475,372 | 450,051 | 343,851 |
| 10,649 | 21,830 | — | 30,273 | 1,043 | 1,874 | 1,388 |
| 1,542,991 | 966,010 | 676,382 | 558,871 | 474,329 | 448,177 | 342,463 |
| 362,399 | 292,488 | 220,557 | 226,394 | 229,750 | 229,750 | 73,500 |
| 247,906 | 198,427 | 158,269 | 124,354 | 119,330 | 119,330 | 119,330 |
| $.43 | $.26 | $.18 | $.13 | $.10 | $.09 | $.11 |


British Columbia
Alberta
Edmonton
Saskatchewan
Vancouver
Victoria
Calgary
Medicine Hat
Exploration & Development
Branch Offices (Gas Distribution)
Gas Distribution Systems
Branch Offices (Equipment Distribution)
Manufacturing Plants
Inter-City Gas Transmission Systems
Other Major Gas Pipelines

Manitoba
Ontario
Portage
la Prairie
Winnipeg
Steinbach
Fort Frances
Thief River
Falls
International Falls
Grand Rapids
Wadena
Cloquet
Minnesota
Toronto
St. Catharines

# Consolidated Balance Sheet

as at December 31, 1975

| ASSETS | 1975 $ | 1974 $ |
|---|---|---|
| **Current Assets** | | |
| Cash | 1,325,744 | 1,118,103 |
| Accounts receivable (note 2) — | | |
| Trade and sundry | 10,069,634 | 7,024,151 |
| Joint interest | — | 1,000,919 |
| Conditional sales contracts | 170,421 | 234,097 |
| Income taxes recoverable | 87,766 | 385,110 |
| Inventories (notes 2 and 3) | 4,911,386 | 6,454,030 |
| Prepaid expenses and deposits | 245,530 | 346,903 |
| | 16,810,481 | 16,563,313 |
| **INVESTMENTS** — at cost | | |
| Advances to the trustees of share purchase plans (note 4) | 735,348 | 758,611 |
| Other | 48,035 | 47,524 |
| | 783,383 | 806,135 |
| **FIXED ASSETS** (note 5) | | |
| Property, plant and equipment — at cost | 52,831,705 | 48,895,297 |
| Accumulated depreciation and depletion | 6,905,905 | 5,487,375 |
| | 45,925,800 | 43,407,922 |
| **INTANGIBLE ASSETS AND DEFERRED CHARGES —** | | |
| At Cost, less amortization | | |
| Financing expenses | 870,584 | 926,839 |
| Natural gas market development | 340,054 | 334,124 |
| Rate hearings and other | 396,043 | 321,859 |
| Goodwill | 222,264 | 24,935 |
| | 1,828,945 | 1,607,757 |
| | 65,348,609 | 62,385,127 |

**Signed on Behalf of the Board**

R. G. Graham, Director

Alan Sweatman, Director

| LIABILITIES | 1975 $ | 1974 $ |
|---|---|---|
| **Current Liabilities** | | |
| Bank advances (note 2) | 10,411,405 | 10,142,595 |
| Accounts payable and accrued liabilities | 6,734,944 | 8,084,011 |
| Income taxes payable | 776,398 | 954,695 |
| Current portion of long-term debt | 2,673,591 | 1,788,854 |
| Customers' security deposits | 187,786 | 213,841 |
| | 20,784,124 | 21,183,996 |
| **Customers' Contributions in Aid of Construction** | 354,636 | 279,502 |
| **Long-Term Debt** (note 6) | 22,828,934 | 21,590,552 |
| **Deferred Income Taxes** (note 8) | 2,596,598 | 1,569,298 |
| **Minority Interest in Subsidiary Companies** | — | 32,645 |
| | 46,564,292 | 44,655,993 |
| SHAREHOLDERS' EQUITY | | |
| **Capital Stock** (note 7) | | |
| Authorized | | |
| — 600,000 cumulative redeemable first preference shares of the par value of $20 each, issuable in series | | |
| — 267,968 cumulative redeemable second preference shares of the par value of $20 each, issuable in series | | |
| — 10,000,000 common shares of no par value | | |
| Issued and fully paid | | |
| — 99,668 6½% Series A second preference shares | 1,993,360 | 2,075,960 |
| — 93,300 7½% Series B second preference shares | 1,866,000 | 1,940,000 |
| — 265,000 8¼% Series B first preference shares | 5,300,000 | 5,300,000 |
| — 3,436,168 common shares | 3,932,916 | 3,805,528 |
| | 13,092,276 | 13,121,488 |
| **Retained Earnings** | 5,692,041 | 4,607,646 |
| | 18,784,317 | 17,729,134 |
| | 65,348,609 | 62,385,127 |

# Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1975

| | 1975<br>$ | 1974<br>$ |
|---|---|---|
| **Source of Funds:** | | |
| Provided from operations | 5,429,367 | 3,722,013 |
| Proceeds from 9½% first mortgage bonds | — | 3,000,000 |
| Proceeds from 8¼% Series B first preference shares | — | 5,300,000 |
| Customers' contributions in aid of construction | 75,134 | 42,297 |
| Term bank loan | 4,500,000 | — |
| Proceeds from sale of fixed assets | 318,246 | — |
| Proceeds from issue of common shares | 127,388 | 8,570 |
| Decrease in investments | 22,752 | — |
| | 10,472,887 | 12,072,880 |
| **Use of Funds:** | | |
| Additions to utility systems and other equipment | 1,727,514 | 1,772,345 |
| Additions to petroleum and natural gas properties, exploration costs and well equipment | 2,756,694 | 7,825,130 |
| Increase in investments | — | 278,334 |
| Redemption of long-term debt | 3,261,618 | 2,995,443 |
| Dividends paid to shareholders | 1,537,684 | 1,219,969 |
| Redemption of preference shares | 156,600 | 1,289,360 |
| Purchase of shares of subsidiary companies | 254,176 | 24,935 |
| Financing expenses and other deferred charges | 131,561 | 300,881 |
| | 9,825,847 | 15,706,397 |
| **Increase (Decrease) in Working Capital** | 647,040 | (3,633,517) |
| **Working Capital Deficiency — Beginning of Year** | 4,620,683 | 987,166 |
| **Working Capital Deficiency — End of Year** | 3,973,643 | 4,620,683 |
| **Working Capital Deficiency is Represented by:-** | | |
| Current liabilities | 20,784,124 | 21,183,996 |
| Current assets | 16,810,481 | 16,563,313 |
| | 3,973,643 | 4,620,683 |

# Consolidated Statement of Retained Earnings

for the year ended December 31, 1975

| | 1975 $ | 1974 $ |
|---|---|---|
| **Balance — Beginning of Year** | 4,607,646 | 3,706,148 |
| Consolidated net income for the year | 2,622,079 | 2,121,467 |
| | 7,229,725 | 5,827,615 |
| Dividends paid — | | |
| 5¼% Series A first preference shares | — | 30,612 |
| 6½% Series A second preference shares | 132,612 | 137,544 |
| 7½% Series B second preference shares | 143,175 | 150,000 |
| 8¼% Series B first preference shares | 437,241 | 218,634 |
| Common shares | 824,656 | 683,179 |
| | 1,537,684 | 1,219,969 |
| **Balance — End of Year** | 5,692,041 | 4,607,646 |

# Notes to Consolidated Financial Statements

for the year ended December 31, 1975

## 1. ACCOUNTING POLICIES

### Consolidation

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The amounts by which the purchase price of the subsidiary companies exceeds the fair market value of the assets acquired is treated as goodwill and amortized on a straight line basis over ten years.

### Foreign exchange

The accounts of subsidiaries and divisions operating in the United States are translated into Canadian dollars at the rates of exchange on the balance sheet date for current assets and liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses.

### Fixed assets

Natural gas transmission and distribution systems and buildings and equipment are stated at cost which includes interest and overhead amounts capitalized during the construction period. Depreciation is provided on the straight line method at rates varying between 1.7% and 30.0% based on the estimated useful life of those assets.

Petroleum and natural gas properties, exploration costs and well and gathering systems are accounted for on the full cost method of accounting, whereby all costs, including interest and overhead, of exploring for and developing oil and gas properties are capitalized. These costs are depleted by the unit of production method based on estimated recoverable reserves.

### Deferred charges

Amortization of financing expenses and other deferred charges is provided on the straight line method over periods of ten and twenty years.

### Income taxes

The Public Utilities Board of Manitoba has directed certain subsidiary companies to provide only those income taxes currently payable in its financial statements and in calculating its rate of return for rate making purposes. The company considers it is appropriate to follow the same policy for its transmission and distribution systems in other jurisdictions. However, for all other operating divisions, the company, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, provides for deferred income taxes on all timing differences between accounting income and taxable income, including those relating to exploration, development and acquisition of petroleum and natural gas properties.

## 2. SECURITY FOR BANK LOANS

Current and term bank loans are generally secured by a pledge of inventories, accounts receivable, production proceeds, shares of certain subsidiary companies and interests in certain petroleum and natural gas properties. In addition, a demand debenture in the amount of $3,500,000 securing a floating charge on the non-utility subsidiary companies' assets has been given as collateral security.

## 3. INVENTORIES

Inventories are stated at the lower of cost or net realizable value and classified as follows:

| | 1975<br>$ | 1974<br>$ |
|---|---|---|
| Raw materials | 1,087,320 | 1,451,971 |
| Work in process | 386,754 | 513,407 |
| Finished goods | 2,728,303 | 3,942,868 |
| Materials and supplies | 709,009 | 545,784 |
| | 4,911,386 | 6,454,030 |

### 4. EMPLOYEE SHARE PURCHASE PLANS

No common shares were purchased by the trustees of the plans during the year (1974 – 56,595 common shares). An amount of $23,263 was repaid during the year by the trustees to the company and the balance due from the trustees at December 31, 1975 amounted to $735,348 (1974 – $758,611).

### 5. FIXED ASSETS

Property, plant and equipment is classified as follows:

| | Cost $ | Accumulated Depreciation and Depletion $ | 1975 $ | 1975 $ |
|---|---|---|---|---|
| Utility transmission and distribution systems | 34,875,484 | 5,197,561 | 29,677,923 | 29,119,435 |
| Petroleum and natural gas properties and exploration costs | 10,671,590 | 640,445 | 10,031,145 | 9,002,745 |
| Well equipment and gathering systems | 5,917,145 | 512,367 | 5,404,778 | 4,599,384 |
| Land and buildings | 570,464 | 165,213 | 405,251 | 395,490 |
| Machinery, equipment and furniture | 797,022 | 390,319 | 406,703 | 290,868 |
| | 52,831,705 | 6,905,905 | 45,925,800 | 43,407,922 |

### 6. LONG-TERM DEBT

The details of long-term debt of the company and its subsidiary companies are as follows:

| | 1975 | | 1974 | |
|---|---|---|---|---|
| | Current $ | Long-term $ | Current $ | Long-term $ |
| **Inter-City Gas Limited** | | | | |
| Term bank loans bearing interest at 1% above bank's prime rate, final balance due February 1980 | 60,000 | 485,000* | 155,000 | 545,000* |
| 7% debentures - Series B maturing 1982 | 62,200 | 925,000 | 68,000 | 1,000,000 |
| 8% first mortgage bonds - Series A maturing 1989 | 150,000 | 3,400,000* | 100,000 | 3,550,000* |
| 9½% first mortgage bonds - Series B maturing 1994 | 100,000 | 1,800,000* | 100,000 | 1,900,000* |
| 9½% first mortgage bonds - Series C maturing 1994 | 50,000 | 900,000 | 50,000 | 950,000 |
| **Inter-City Gas Utilities Ltd.** | | | | |
| 6% first mortgage bonds - Series A maturing 1977 | 37,500 | 37,500 | 37,500 | 75,000 |
| 6% first mortgage bonds - Series B maturing 1982 | 25,000 | 250,000 | 25,000 | 275,000 |
| 6% first mortgage bonds - Series C maturing 1985 | 57,000 | 1,587,000 | 57,000 | 1,644,000 |
| 7% debentures - Series A maturing 1979 | — | 341,500 | 9,500 | 375,000 |
| **Inter-City Pipelines Ltd.** | | | | |
| Term bank loan bearing interest at 1% above bank's prime rate, final balance due November 1980 | 370,000 | 1,490,000 | 370,000 | 1,860,000 |
| **Inter-City Minnesota Pipelines Ltd. and ICG Transmission Limited** | | | | |
| 9½% joint and several promissory note due January 1991, secured by 8% joint and several first mortgage bonds maturing January 1991 | 265,000 | 3,970,000* | 265,000 | 4,235,000* |

| | | | | |
|---|---|---|---|---|
| **Minell Pipeline Ltd.** | | | | |
| Term bank loan bearing interest at 3% above bank's prime rate, final balance due March 1980 | 70,000 | 571,666* | 58,334 | 641,666* |
| **Inter-City Manufacturing Ltd.** | | | | |
| Term bank loan bearing interest at 1% above bank's prime rate, final balance due November 1980 | 240,000 | 1,520,000 | 240,000 | 1,760,000 |
| Term bank loan bearing interest at 0.37% above bank's prime rate, final balance due February 1980 | 270,000 | 2,182,500* | 247,500 | 2,452,500* |
| Term bank loan bearing interest at 1¼% above bank's prime rate, final balance due April 1980 | 900,000 | 3,150,000 | – | – |
| *Premium on U. S. funds | 16,891 | 218,768 | 6,020 | 327,386 |
| | 2,673,591 | 22,828,934 | 1,788,854 | 21,590,552 |

Under the provisions of the various indentures and agreements the companies are required to make the following sinking fund instalments and term bank loan repayments during the next five years:

| Year | $ |
|---|---|
| 1976 | 2,673,591 |
| 1977 | 2,724,500 |
| 1978 | 2,722,000 |
| 1979 | 2,997,000 |
| 1980 | 4,574,166 |
| | 15,691,257 |

## 7. CAPITAL STOCK

(a) During the year a total of 20,272 common shares were issued for a consideration of $127,388 of which $300 (100 shares) was received on the exercise of share purchase warrants. The balance of the shares (20,172) were issued for a consideration of $127,088 in exchange for the purchase of the remaining 49% of the outstanding shares of Furnasman Supply Ltd.

(b) The company has reserved 599,900 common shares on the exercise of share purchase warrants at $3.00 per share up to July 31, 1976 and $3.50 per share up to July 31, 1981.

(c) The company is required by its letters patent to purchase annually in the market within certain limits a minimum of 3% of the outstanding 6½% Series A second preference shares of which 4,080 were purchased and cancelled during 1975 and a minimum of 3% of the outstanding 7½% Series B second preference shares of which 3,700 were purchased and cancelled in 1975. Effective May 1977 the company is required to purchase annually a minimum of 5% of the outstanding 8¼% Series B first preference shares.

## 8. DEFERRED INCOME TAXES

As explained in note 1, the company does not follow the tax allocation basis for its gas utility and pipeline operations. If deferred tax allocation had been followed in respect of all timing differences between accounting income and taxable income, the provision for deferred income taxes would have increased and consolidated net income would have decreased by $222,300 (1974 – $326,500). At December 31, 1975 the accumulated deferred income taxes would have amounted to approximately $3,120,600 (1974 – $2,898,300).

## 9. NET INCOME PER COMMON SHARE

The income per common share is calculated on a weighted average number of shares outstanding during the respective years. Based on the assumption that the share warrants for 599,900 common shares had been exercised on January 1, 1975 and the proceeds received therefrom earned a rate of return equivalent to that earned on the book value of the common shareholders' equity in 1975, there will be no dilution of the 1975 net income per share. The amount of imputed income was $356,940.

## 10. SUPPLEMENTARY INFORMATION

(a) Included in other revenue are the following amounts:

| | 1975 $ | 1974 $ |
|---|---|---|
| Income from investments | 17,175 | 42,871 |
| Discount on shares and debentures purchased for cancellation | 62,341 | 29,932 |
| (b) Included in operating and maintenance expense are the following amounts for the amortization of deferred charges: | | |
| Natural gas market development | 46,435 | 38,683 |
| Rate hearings and other | 35,798 | 28,721 |
| Goodwill | 25,000 | — |
| (c) The aggregate remuneration paid to directors and senior officers of the company in their capacity as director, officer or employee | 357,700 | 279,400 |

## 11. BUSINESS ACQUISITION

During the year the company acquired the remaining 49% of the outstanding shares of Furnasman Supply Ltd. The purchase was accounted for as follows:

| | $ |
|---|---|
| Net tangible assets at fair value | 28,344 |
| Amount attributable to goodwill | 225,832 |
| | 254,176 |
| Consideration — | |
| Cash | 127,088 |
| 20,172 common shares issued | 127,088 |
| | 254,176 |

## 12. ANTI-INFLATION ACT

The company is subject to the restraint of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

Under the legislation the amount of dividends which the company can declare or pay during the period from October 14, 1975 to October 13, 1976 will be limited to 24 cents per common share. Of this amount, 12 cents per common share was paid to shareholders on December 15, 1975.